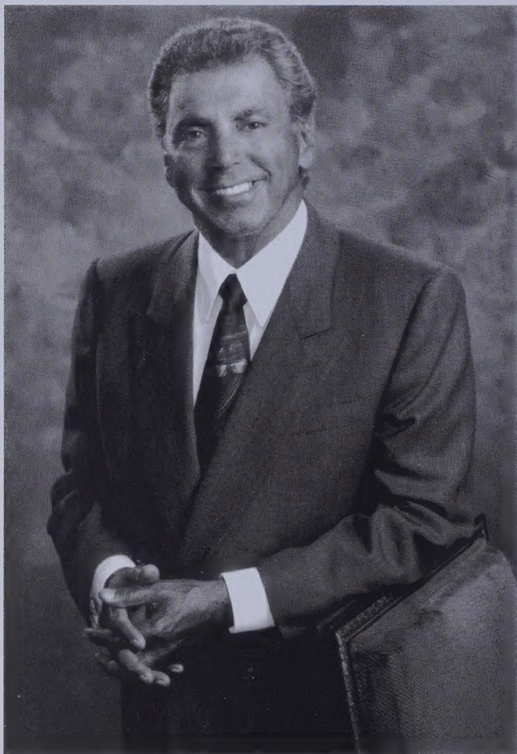
Leon's Furniture Limited
2000 Annual Report

In Loving Memory



It is with great sadness and heavy hearts that we announce the passing of Mr. Edward Leon, the Vice-Chairman of Leon's Furniture Limited, on December 19th, 2000. He was seventy-four years old.

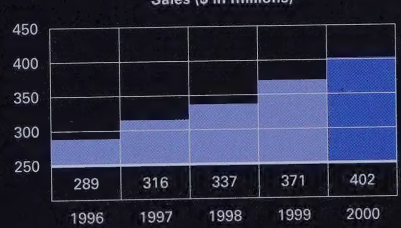
Mr. Ed, as he was affectionally known, was a man highly respected and deeply loved by friends, family and business associates. His entire working career was devoted to the success of Leon's Furniture Limited. Mr. Ed's great vision allowed him to develop a myriad of innovative merchandising techniques which will serve as a solid foundation, upon which our company's future success will be built. Mr. Ed was a true giant, not only in our business, but within our family as well. His great leadership and unyielding commitment have served as shining examples for those around him. He was a man of great courage and decisiveness, who had absolutely no fear of failure. Yet, with all his success, he somehow managed to conduct himself with a sincere humility that grew to become one of his most distinguished traits. Although physically he is no longer with us, Mr. Ed will continue to guide us through good times and bad. His spirit has been forever woven through the culture of our company, with his threads of wisdom, perseverance and integrity, providing us with a blanket of confidence to move forward, as he would have wished. We have been blessed by his presence.

Those of us who worked closely with Mr. Ed will never forget him. May God rest his soul and let perpetual light shine upon him.

Financial Highlights

($ in thousands, except per share amounts)	2000	1999	% Change
INCOME			
Sales	**$ 402,236**	$ 370,825	8.5%
Income before income taxes	**64,001**	64,046	-0.1%
Provision for income taxes	**27,301**	27,880	-2.1%
Net income	**36,700**	36,166	0.6%
Cash flow generated from operations	**39,560**	33,633	17.6%
Dividends paid	**23,228**	16,305	42.5%
PER COMMON SHARE			
Net income	**$ 1.80**	$ 1.79	0.1%
Cash flow generated from operations	**1.94**	1.66	16.9%
Dividends paid	**1.15**	.81	42.0%
Shareholders' equity at year end	**9.94**	8.85	12.3%

Sales ($ in millions)



Net Income ($ in millions)

Shareholders' Equity per Common Share

OUR NEW SHOWROOMS PROVIDE VISTAS OF BRAND NAME QUALITY MERCHANDISE FOR THE CONSUMER. THE SPACIOUS AISLES, INNOVATIVE LIGHTING APPLICATIONS AND UNIQUE FINISHES ALLOW OUR CUSTOMER TO ENJOY THEIR SHOPPING EXPERIENCE IN AN ENVIRONMENT CREATED SPECIFICALLY FOR THEM.

President's Message

Once again we have set new records in sales and profits for the year 2000. Our sales were $402,236,000 in 2000 compared to $370,825,000 in 1999, an increase of 8.5%. Our net income was $36,700,000 in 2000 compared to $36,166,000 in 1999, an increase of 1.5%. Excluding the gain on sales of properties, net of applicable income taxes, net operating income was $35,257,000 in 2000 compared to $31,758,000 in 1999, representing an increase of 11%. Total revenues for the company, including franchise sales, amounted to $524,292,000 in 2000 compared to $483,314,000 in 1999, representing an overall increase of 8.5%.

As is often the case in the retail environment, the past year provided our company with many challenges. The first major test took place at the stroke of midnight on January 1st, 2000. We are all well aware of the dire predictions of potential disaster, in regard to computer systems crashing at the millennium date change. We are proud to say that Leon's associates involved in these areas of concern, went to great lengths to ensure a completely successful conversion.

Technological advances to our information systems continued to provide our company with challenges and will greatly enhance the overall efficiencies of our operations. Radio frequency bar coding, electronic data interchange, Intranet and Internet developments took root in 2000, and will soon blossom into cost saving procedures throughout the organization.

Shortly after the year began, we opened the doors to our newly renovated flagship store in Toronto's east end. The consumer was treated to a sensational presentation of home furnishings, displayed within an environment that exudes the professionalism and retail experience of Leon's.

Last October, we opened a new warehouse showroom in Anjou, a suburb in Montreal. We believe that this store is the most exciting home furnishings showroom in the province of Quebec. We also believe that the large investment made on our part, should serve as an indication of our long-term commitment to significant future growth in the province.

The construction of two new outlets began last year in Red Deer, Alberta and St. Catherine's, Ontario. These new projects will be large warehouse showrooms, utilizing all our unique design concepts that have proven to be very exciting to our customers. Even in consideration of the aforementioned challenges, our company was still able to improve sales and profits. However, as the year 2000 came to a close, it became clear that the economic environment was changing. As a result, retail activity in general began to show signs of instability. As a retailer, with nearly one hundred years of experience, we have always recognized the cyclical nature of our business.

We believe that 2001, will provide all retailers, including Leon's, with many hurdles to overcome. Our continued flexibility, commitment and determination to succeed, will enable us to reinforce our leadership position within the industry. We believe that somewhere within every wall of difficulty lies a door to great opportunity. As we have done for so many years, we will continue to find those doors and capitalize on what lies behind them.

In closing, we once again express our sincere thanks to nearly two thousand associates of Leon's. The success of any organization lies in the hearts and minds of its people. The genuine care and concern demonstrated everyday by Leon's associates, is very much appreciated. We are indeed very proud of each and every one of them.

Five-year Review

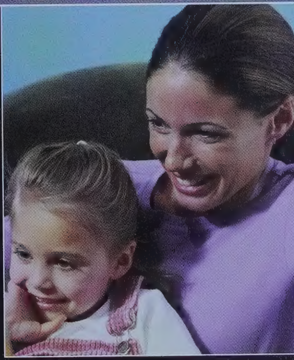
INCOME STATISTICS

($ in thousands, except earnings per share)	**2000**	1999	1998	1997	1996
Sales	**$ 402,236**	$ 370,825	$ 336,895	$ 315,817	$ 289,241
Cost of sales	**234,798**	217,643	199,369	187,680	173,271
Gross profit	**167,438**	153,182	137,526	128,137	115,970
Operating expenses (net of interest and sundry income)	**91,181**	81,696	78,331	77,708	74,347
Rent and property taxes	**7,325**	6,847	6,518	5,207	4,918
Depreciation and amortization	**6,933**	6,401	5,649	5,483	4,304
	105,439	94,944	90,498	88,398	83,569
Income before gain on sale of property and income taxes	**61,999**	58,238	47,028	39,739	32,401
Gain on sale of property	**2,002**	5,808	908	–	–
Income before income taxes	**64,001**	64,046	47,936	39,739	32,401
Provision for income taxes	**27,301**	27,880	21,530	18,104	14,747
Net income	**$ 36,700**	$ 36,166	$ 26,406	$ 21,635	$ 17,654
Common shares outstanding (000's) (weighted average)	**20,365**	20,151	20,098	19,987	19,861
Earnings per common share	**$ 1.80**	$ 1.79	$ 1.31	$ 1.08	$ 0.89
Percent annual increase in sales	**8.5%**	10.1%	6.7%	9.2%	2.4%
Net income as a percentage of sales	**9.1%**	9.8%	7.8%	6.9%	6.1%
Dividends declared	**$ 8,258**	$ 21,960	$ 15,787	$ 4,471	$ 13,952

BALANCE SHEET STATISTICS

($ in thousands, except earnings per share)	**2000**	1999	1998	1997	1996
Shareholders' equity	**$ 202,345**	$ 178,313	$ 163,917	$ 152,315	$ 133,804
Total assets	**280,656**	268,581	245,270	217,641	193,089
Additions to fixed assets	**19,085**	18,705	14,714	7,155	18,958
Decrease in long-term debt	**–**	(70)	(196)	(180)	(164)
Working capital	**88,913**	78,324	75,259	70,895	54,819
Current ratio	**2.1:1**	1.9:1	1.9:1	2.1:1	1.9:1
Shareholders' equity per common share	**$ 9.94**	$ 8.85	$ 8.16	$ 7.62	$ 6.73
Common share price range on the Toronto Stock Exchange					
High	**$ 24.25**	$ 24.70	$ 22.10	$ 22.00	$ 13.45
Low	**$ 18.00**	$ 16.50	$ 16.25	$ 12.75	$ 11.50

WE BELIEVE THAT OUR NEW WAREHOUSE SHOWROOMS HAVE BEEN DESIGNED TO PROVIDE OUR COMPANY WITH THE MOST EFFICIENT USAGE OF FLOOR SPACE. OUR INDIVIDUAL ROOM SETTINGS ARE FULLY DECORATED IN ORDER FOR OUR CUSTOMERS TO ENVISION OUR FURNITURE IN THEIR HOMES.



LEON'S WAREHOUSES CONTINUE TO PROVIDE US WITH THE DISTINCT ADVANTAGE OF PROVIDING CUSTOMERS WITH ALMOST INSTANT GRATIFICATION. OUR NEW PLATINUM GALLERIES ALLOW US TO PROVIDE A WIDER ASSORTMENT OF MORE UNIQUE MERCHANDISE. WE BELIEVE THESE GALLERIES WILL HELP BROADEN OUR APPEAL TO A WIDER POPULATION.

Nationwide Locations

ALBERTA
Calgary
Edmonton
Medicine Hat*

SASKATCHEWAN
Prince Albert*

MANITOBA
Brandon*
Winnipeg

ONTARIO
Barrie
Bracebridge*
Brockville*
Burlington
Chatham*
Cornwall*
Huntsville*
Kapuskasing*
Kingston*
Kitchener
London
Mississauga
North Bay*
Orillia*
Ottawa (2)
Owen Sound*
Peterborough*
Richmond Hill
Sarnia*
Sault Ste. Marie
St. Catharines
Sudbury
Thunder Bay*
Toronto (3)
Trenton*
Welland
Windsor
Whitby

QUEBEC
Anjou
Greenfield Park**
Laval
Ste. Foy**
Vanier**

NEW BRUNSWICK
Fredericton*
Moncton*
Saint John*

PRINCE EDWARD ISLAND
Charlottetown*

NOVA SCOTIA
Dartmouth
Kentville*

NEWFOUNDLAND
St. John's*

Franchise premises   Leased premises**   All other premises are Company owned*

Management's Discussion and Analysis

RESULTS OF OPERATIONS

General

For the year ended December 31, 2000, sales were $402,236,000 compared to $370,825,000 in 1999, resulting in an 8.5% increase. Excluding the gain on sale of properties, net operating income was $35,257,000 or $1.73 per common share ($31,758,000, $1.58 per common share in 1999), an increase of 11%. Net income for the same period including gain on the sale of property was $36,700,000, $1.80 per common share ($36,166,000, $1.79 per common share in 1999 including gain on the sale of property), an increase of 1.5%. Total Leon's sales, including $122,056,000 of sales by franchises, amounted to approximately $524,292,000.

Overall, we are satisfied with the sales and profits in 2000. Although both reached record levels, we believe that improvements could be made in some areas which would enhance our bottom line even further. Significant expenses such as advertising, distribution and service are evaluated on a consistent basis in order to identify any possible cost savings. At the same time however, we must continue to be aggressive in areas such as merchandising and marketing in order to build share wherever possible.

Major renovations are underway in Weston, Ontario to our original warehouse and showroom. Plans are also being finalized for a similar renovation to our Edmonton, Alberta store. We believe these undertakings combined with the store openings mentioned in the President's Message will help to solidify our position of leadership in those markets.

Franchise Operations

Sales by franchises were $122,056,000 in 2000 ($112,489,000 in 1999), an increase of 8.5% over the prior year. We believe having our corporate team involved with our franchise division further strengthens the franchise commitment. At the end of 2000, the Company had a total of 22 franchisees operating 23 franchise stores. We will continue to seek qualified franchisees to join this successful division. As always, we must try to ensure that future potential candidates possess the character, skills and resources necessary to be a member of this successful team.

Foreign Operations

Our Arizona operations were discontinued as of May 1997. One of our two U.S. properties was sold in 1998 at a pre-tax gain of $908,000 and the remaining property was sold in 1999 at a pre-tax gain of $5,808,000.

Liquidity and Capital Resources

At December 31, 2000, the Company's cash and investment position was $103,369,000. Future expansion and renovations referred to above for the year 2001 will be financed from the Company's existing cash resources.

Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based upon estimates and judgements. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

Leon's Furniture Limited (Leon's) maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable costs. Such systems are designed to provide reasonable assurance that the financial information is relevant and reliable and that Leon's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and reviews the financial statements and annual report; considers the report of the external auditors; assesses the adequacy of the internal controls of the company; examines the fees and expenses for audit services; and recommends to the Board the independent auditors for appointment by the shareholders. The Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the shareholders.

These consolidated financial statements have been audited by Ernst & Young, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Ernst & Young has full and free access to the Audit Committee.

Mark J. Leon
President and C.E.O.

Dominic Scarangella
Treasurer and Controller

February 21, 2001

Auditors' Report

To the Shareholders of **Leon's Furniture Limited - Meubles Leon Ltée**

We have audited the consolidated balance sheets of Leon's Furniture Limited - Meubles Leon Ltée as at December 31, 2000 and 1999 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Toronto, Canada,
February 12, 2001

Consolidated Balance Sheets

As at December 31 ($ in thousands)	**2000**	1999
ASSETS		
Current		
Cash and cash equivalents	**$ 24,802**	$ 22,020
Marketable securities	**78,567**	86,104
Accounts receivable	**14,605**	10,798
Inventory	**49,171**	49,634
Total current assets	**167,145**	168,556
Future tax assets *[notes 2 and 4]*	**4,930**	4,561
Fixed assets, net *[note 3]*	**108,581**	95,464
	$ 280,656	$ 268,581
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 68,742**	$ 62,019
Income taxes payable	**885**	6,188
Customers' deposits	**6,507**	4,900
Dividends payable	**2,098**	17,125
Total current liabilities	**78,232**	90,232
Redeemable share liability *[note 8]*	**79**	36
Total liabilities	**78,311**	90,268
Shareholders' equity		
Common shares *[note 9]*	**9,518**	7,404
Retained earnings	**192,827**	170,909
Total shareholders' equity	**202,345**	178,313
	$ 280,656	$ 268,581

See accompanying notes

On behalf of the Board:

Anthony Thomas Leon

Director

Mark Leon

Director

Consolidated Statements of Income and Retained Earnings

Years ended December 31 *($ in thousands, except shares outstanding and earnings per share)*	**2000**	1999
Sales	**$ 402,236**	$ 370,825
Cost of sales	**234,798**	217,643
Gross profit	**167,438**	153,182
Operating expenses (income)		
Salaries and commissions	**58,022**	52,907
Advertising	**25,791**	22,612
Rent and property taxes	**7,325**	6,847
Depreciation and amortization	**6,933**	6,401
Employee profit-sharing plan	**2,243**	1,997
Other operating expenses	**21,810**	18,969
Interest income	**(5,041)**	(4,624)
Other income	**(11,644)**	(10,165)
	105,439	94,944
Income before gain on sale of property and income taxes	**61,999**	58,238
Gain on sale of property	**2,002**	5,808
Income before income taxes	**64,001**	64,046
Provision for income taxes *[note 4]*	**27,301**	27,880
Net income for the year	**36,700**	36,166
Retained earnings, beginning of year	**170,909**	156,703
Dividends declared	**(8,258)**	(21,960)
Excess of cost of share repurchase over carrying value of related shares *[note 9]*	**(6,524)**	—
Retained earnings, end of year	**$ 192,827**	$ 170,909
Weighted average number of common shares outstanding		
Basic	**20,364,972**	20,150,533
Fully diluted	**20,575,684**	20,920,418
Earnings per share		
Basic	**$ 1.80**	$ 1.79
Fully diluted	**$ 1.78**	$ 1.73

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 *($ in thousands)*	**2000**	1999
OPERATING ACTIVITIES		
Net income for the year	**$ 36,700**	$ 36,166
Add (deduct) items not involving a current cash payment		
Depreciation and amortization	**6,933**	6,401
Gain on sale of fixed assets	**(2,002)**	(5,726)
Future tax assets	**(369)**	(384)
Loss (gain) on sale of marketable securities	**(264)**	74
Currency translation adjustment	**—**	(973)
	40,998	35,558
Net change in non-cash working capital balances related to operations *[note 7]*	**(1,438)**	(1,925)
Cash provided by operating activities	**39,560**	33,633
INVESTING ACTIVITIES		
Purchase of fixed assets	**(19,085)**	(18,705)
Proceeds on sale of fixed assets	**2,158**	7,484
Purchase of marketable securities	**(1,708,923)**	(1,642,524)
Proceeds on sale of marketable securities	**1,716,724**	1,647,137
Decrease in employee share purchase loans *[note 8]*	**2,260**	1,076
Cash used in investing activities	**(6,866)**	(5,532)
FINANCING ACTIVITIES		
Dividends paid	**(23,228)**	(16,305)
Repurchase of capital stock *[note 9]*	**(6,684)**	—
Repayment of long-term debt	**—**	(70)
Cash used in financing activities	**(29,912)**	(16,375)
Net increase in cash and cash equivalents during the year	**2,782**	11,726
Cash and cash equivalents, beginning of year	**22,020**	10,294
Cash and cash equivalents, end of year	**$ 24,802**	$ 22,020

See accompanying notes

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements of Leon's Furniture Limited - Meubles Leon Ltée [the "Company"] have been prepared by management in accordance with Canadian generally accepted accounting principles. The more significant of these accounting policies are summarized as follows:

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Foreign exchange translation

Merchandise imported from the United States is recorded at its equivalent Canadian dollar value upon receipt. United States dollar accounts payable are translated at the year-end exchange rate. Gains and losses resulting from translation of United States dollar accounts payable are included in income.

Cash and cash equivalents

Cash equivalents comprise only highly liquid investments with original maturities of less than ninety days.

Marketable securities

Marketable securities, which consist primarily of bonds with maturities not exceeding eight years and an interest rate range of 5.0% to 9.25%, are stated at the lower of cost and market value. Market value approximated cost as at December 31, 2000 and 1999.

Inventory

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value less normal profit margin.

Fixed assets

Fixed assets are initially recorded at cost. Normal maintenance and repair expenditures are expensed as incurred. Depreciation and amortization are provided over the estimated useful lives of the assets using the following annual rates and bases:

Buildings	5% straight-line
Equipment	20% to 30% declining balance
Vehicles	30% declining balance
Computer hardware and software	14% straight-line
Leasehold improvements	Over the terms of the leases to a maximum of 15 years

No depreciation or amortization is provided for assets under construction.

Store pre-opening costs

Store pre-opening costs are expensed as incurred.

Income taxes

The Company follows the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings per share

Basic earnings per share have been calculated using the weighted average number of common shares. Fully diluted earnings per share are calculated using the imputed earnings method.

Fair value of financial instruments

The fair value of financial instruments held by the Company, comprising cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities, customers' deposits, employee share purchase loans, and redeemable shares, approximate their carrying values in these consolidated financial statements, due to their short-term nature.

2. ACCOUNTING POLICY CHANGE

Effective January 1, 2000, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants with respect to accounting for income taxes. The cumulative effect, as at January 1, 2000, of adopting the recommendations was immaterial. Prior year consolidated financial statements have not been restated.

Under the new recommendations, the liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation. Future tax expense was based on items of income and expense that were reported in different years in the financial statements and tax returns and measured at the tax rate in effect in the year the difference originated.

3. FIXED ASSETS

Fixed assets consist of the following:

	2000			1999		
($ in thousands)	**Cost ($)**	**Accumulated depreciation and amortization ($)**	**Net book value ($)**	Cost ($)	Accumulated depreciation and amortization ($)	Net book value ($)
Land	**34,973**	**—**	**34,973**	32,563	—	32,563
Buildings	**97,928**	**42,884**	**55,044**	88,859	40,525	48,334
Equipment	**14,521**	**9,737**	**4,784**	12,469	8,204	4,265
Vehicles	**12,728**	**9,751**	**2,977**	11,058	8,849	2,209
Computer hardware and software	**4,698**	**3,002**	**1,696**	5,547	3,537	2,010
Leasehold improvements	**14,487**	**5,380**	**9,107**	10,348	4,265	6,083
	179,335	**70,754**	**108,581**	160,844	65,380	95,464

Included in the above balances are assets not being depreciated with book values of approximately $8,614,000 [1999 - $6,200,000] due to construction in progress.

4. PROVISION FOR INCOME TAXES

Effective January 1, 2000, the Company changed its method of accounting for income taxes from the deferral method to the liability method of tax allocation as required by The Canadian Institute of Chartered Accountants [note 2].

Significant components of the Company's future tax assets as at December 31, 2000, are as follows:

($ in thousands)	($)
Future tax assets	
Capital assets	4,930
Total future tax assets	4,930

Significant components of the provision for income taxes are as follows:

($ in thousands)	Liability method 2000 ($)	Deferral method 1999 ($)
Current tax expense	**27,670**	28,264
Future income tax benefit relating to origination and reversal of temporary differences	**(369)**	(384)
Provision for income taxes	**27,301**	27,880

The total provision for income taxes in the consolidated financial statements is at a rate different than the combined federal and provincial statutory income tax rate of the current year for the following reasons:

	Liability method 2000		Deferral method 1999	
($ in thousands)	**($)**	**(%)**	($)	(%)
Tax at combined federal and provincial tax rate	**27,776**	**43.4**	28,821	45.0
Tax effect of expenses that are not deductible for income tax purposes	**33**	**0.1**	21	—
Tax effect of non-taxable portion of gain on disposal	**(297)**	**(0.5)**	—	—
Net foreign income tax rate differential	—	—	(1,131)	(1.8)
Other, net	**(211)**	**(0.3)**	169	0.3
Provision for income taxes	**27,301**	**42.7**	27,880	43.5

5. COMMITMENTS

The estimated cost to complete construction in progress at three locations [one location in 1999] amounted to approximately $10,640,000 as at December 31, 2000 [1999 - $5,700,000].

The Company is obligated under operating leases to future minimum annual rental payments for certain land and buildings as follows:

($ in thousands)	($)
2001	1,323
2002	895
2003	121
2004	90
2005	90
Thereafter	435
	2,954

6. FRANCHISE OPERATIONS

As at December 31, 2000, a total of twenty-two franchises were in operation representing twenty-three stores. Sales by franchise stores during the year ended December 31, 2000, on which the Company earns royalty income, amounted to approximately $122,056,000 [1999 - $112,489,000].

7. CONSOLIDATED STATEMENTS OF CASH FLOWS

[a] The net change in non-cash working capital balances related to operations consists of the following:

($ in thousands)	**2000 ($)**	1999 ($)
Accounts receivable	**(3,807)**	(1,570)
Inventory	**463**	(3,363)
Accounts payable and accrued liabilities	**5,602**	282
Income taxes payable	**(5,303)**	2,219
Customers' deposits	**1,607**	507
	(1,438)	(1,925)

[b] Income taxes and interest paid:

($ in thousands)	**2000 ($)**	1999 ($)
Income taxes paid	**33,525**	26,061
Interest paid	**39**	250

[c] Payment of preferred dividends:

Dividends paid to preferred shareholders, in the amount of approximately $57,000 [1999 - $95,000], have been used to reduce the respective shareholder loans. In 2000, the Company purchased and cancelled series 1998 shares for approximately $78,000 which further reduced the 1998 shareholder loans [note 8].

8. REDEEMABLE SHARE LIABILITY

($ in thousands)	2000 ($)	1999 ($)
Authorized		
980,000 convertible, non-voting, series 1990 shares		
89,400 convertible, non-voting, series 1994 shares		
350,000 convertible, non-voting, series 1998 shares		
Issued		
Nil series 1990 shares [1999 - 291,202] *[note 9]*	**—**	2,155
47,576 series 1994 shares [1999 - 56,974] *[note 9]*	**606**	725
299,566 series 1998 shares [1999 - 304,000]	**5,272**	5,350
Less employee share purchase loans	**(5,799)**	(8,194)
	79	36

Under the terms of its Management Share Purchase Plan, the Company advanced non-interest bearing loans to certain of its employees in 1990, 1994 and 1998 to allow them to acquire convertible, non-voting, series 1990 shares, series 1994 shares and series 1998 shares, respectively, of the Company. These loans are repayable through the application against the loans of any dividends on the shares, with any remaining balance repayable on the date the shares are converted to common shares. Each issued and fully paid for series 1990, 1994 and 1998 share may be converted into one common share at any time after the fifth anniversary date of the issue of these shares and prior to the tenth anniversary of such issue. Each share may also be redeemed at the option of the holder or by the Company at any time after the fifth anniversary date of the issue of these shares and prior to the tenth anniversary of such issue. The redemption price is equal to the original issue price of the shares adjusted for subsequent subdivisions of shares plus accrued and unpaid dividends. The adjusted average purchase prices of the shares are $7.40 per series 1990 share, $12.73 per series 1994 share and $17.60 per series 1998 share.

During the year ended December 31, 2000, the Company purchased and cancelled 4,434 series 1998 shares for approximately $78,000. During the year ended December 31, 1999, the Company did not issue or cancel any shares.

Employee share purchase loans have been netted against the redeemable share liability based upon their terms.

9. COMMON SHARES

The Company's common shares consist of the following:

($ in thousands)	**2000 ($)**	1999 ($)
Authorized		
Unlimited common shares		
Issued		
20,228,542 common shares [1999 - 20,268,242]	**9,518**	7,404

During the year ended December 31, 2000, 291,202 convertible, non-voting, series 1990 shares [1999 - 132,139] and 9,398 convertible, non-voting series 1994 shares [1999 - 14,493] were converted into common shares with a stated value of approximately $2,155,000 [1999 - $978,000] and $119,000 [1999 - $184,000], respectively.

During the year, the Company repurchased 340,300 of its common shares on the open market pursuant to the terms and conditions of Normal Course Issuer Bids at a net cost of approximately $6,684,000. All shares repurchased by the Company pursuant to its Normal Course Issuer Bids have been cancelled. The repurchase of common shares resulted in a reduction of share capital in the amount of approximately $160,000. The excess net cost over the average book value of the shares, in the amount of approximately $6,524,000, has been shown as a reduction in retained earnings.

10. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2000 consolidated financial statements.

Corporate and Shareholders Information

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Weston, Ontario

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AUDITORS

Ernst & Young LLP

Chartered Accountants

Toronto

REGISTRAR & TRANSFER AGENT

CIBC Mellon Trust Company

Toronto

LISTING

Leon's shares are listed on

the Toronto Stock Exchange

Ticker Symbol is LNF

BOARD OF DIRECTORS

Anthony T. Leon

Toronto

Joseph M. Leon

Doctor of Medicine

Welland

Mark J. Leon

Toronto

Peter B. Eby

Private Investor

Alan J. Lenczner

Barrister, Partner

in Lenczner Slaght

Royce Smith Griffen

T. Iain Ronald

Private Investor

OFFICERS

Anthony T. Leon

Chairman of the Board

Mark J. Leon

President and CEO

Terrence T. Leon

Vice President,

Secretary and CFO

Dominic Scarangella

Treasurer and Controller

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